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Frame, Andrew Jay

Monetary integrity and commercial prosperity

Waukesha

[1896?]

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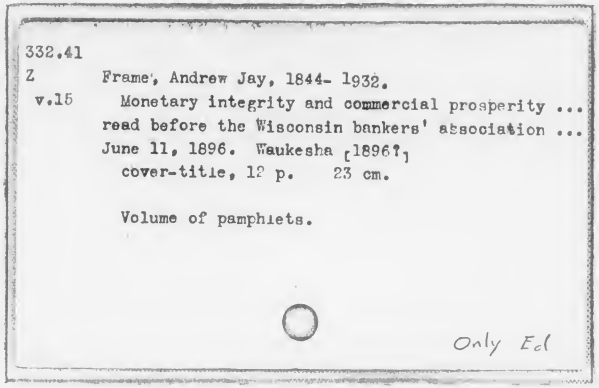

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MONETARY INTEGRITY

—AND—

Commercial Prosperity.

"Errors like straws upon the surface flow,
He who would search for pearls must dive below."
—DRYDEN.

The history of England's controversy on the money question, which was uppermost in the Parliamentary debates from 1795 to 1819, is practically being reproduced in the United States today, in the closing years of this enlightened nineteenth century, notwithstanding the fact that the crux of all phases of both controversies has been clearly solved, and past experience has repeatedly proved to the entire satisfaction of practically all intelligent political economists, bankers and business men that it is an indisputable maxim that excessive supplies of inferior currency as well as cheaper metal in any country will cause hoarding and exportation of the dearer metal.

Silver mine owners, people whose personal interests warp their judgment, and the masses who constantly enter the common complaint for "more money," but who cannot be expected to "dive below for pearls," are the principal exceptions.

Nicole Oresme, Bishop of Lisieux, France, in 1364 laid down the following principles:

"That if the fixed legal ratio of the coins differs from the natural or market value of the metals, the coin which is underrated entirely disappears from circulation, and the coin which is overrated alone remains current."

"That if the degraded and debased coin is allowed to circulate along with good and full weighted coin, all the good coin disappears from circulation, and the base coin alone remains to the ruin of commerce."

Copernicus in 1526 confirms Oresme in the following words:

"That it is impossible for good full weighted coin and base and degraded coin to circulate together; that all the good coin is hoarded, melted down and exported, and the degraded and debased coin alone remains in circulation."

"That the coins of gold and silver must bear the same ratio to each other as the metals do in the market."

Later Sir Thomas Gresham expounded the foregoing laws to Queen Elizabeth which gave rise to the so-called "Gresham Law."

The reader must not forget that the above laws are under "*Free Coinage*" of the metals, and not under *limited* restrictions, which France, the United States and other nations using both gold and silver enjoy. Right here is the stumbling block to the 16 to 1 free silver advocates. They cannot discern the difference between a limited quantity of 50 cent silver dollars circulating at par with gold, under the fiat of the government, and an unlimited quantity of depreciated silver issues under a free coinage law which would inevitably drive gold out of the country.

The astounding thing about our whole trouble is, that in the light of history, where the footprints are so clear that a wayfaring man ought not to err, a majority of the U. S. Senate, which is supposed to be composed of men who are the embodiment of the highest intelligence in the land, should stand squarely against the Gresham Law so called, when that law is as well settled as the law of gravitation or the fact that the earth is round.

The only difference between England's position 100 years ago and ours now is, that England was in the throes of discord in her efforts to resume gold payments after suspension, while the United States is in the "slough of despond" in her efforts to maintain a gold standard.

The condition of England's foreign indebtedness, with a balance of trade against her and gold exportations causing alarm is strictly paralleled in our condition, caused in both

cases by a redundent inferior currency. England's statesmen battled for a quarter of a century with the subject of whether gold was at a premium or a redundant quantity of Bank of England notes at a discount, and when the question was finally settled, gold flowed back, the balance of trade fallacy was exploded and the integrity of her standard of payments as then adopted has been maintained with a fidelity that commands the admiration and confidence of the whole world to the extent that London is the World's Clearing House, and practically all the nations of the earth pay tribute to Britain. This grand climax was brought about by the adoption of the celebrated Bullion Report of 1810 as presented to the House of Commons by an expert committee who wrestled with the knotty problem for years. Such committees, however, appear superfluous in this country, where every cross-roads politician (and the woods are full of them) has perfect confidence in his own ability to settle the most intricate economic problems.

Prof. Sumner in his "History of American Currency" says, "The report of this Committee is perhaps the most important document in financial literature. Its doctrines have been tested both ways, by disbelief and by belief, by experiment of their opposites and experiment of themselves. They are no longer disputable. They are not matter of opinion or theory, but of demonstration. They are ratified and established as the basis of finance. They have passed the stage where the scientific financier is bound to discuss them." And yet our scientific financiers and statesmen largely from the west and south have been burning our fingers by repeating History in their denials of the facts contained in this report.

Prof. Sumner sums up the doctrines of this report practically as follows:

"1st. The value of an inconvertible currency depends on its amount relatively to the needs of the country for circulating medium.

"2d. If gold is at a premium in paper, the paper is redundant and depreciated. The premium measures the depreciation.

"3d. The limit of possible fluctuations in the exchanges is the expense of transmitting bullion from the one country

to the other. Par of exchange is the par of the metals, weight for weight in the two coinages.

"4th. If there is a drain of the precious metals, it is due, aside from exportations to purchase food or pay armies, etc., to the presence of an inferior currency of some sort in the country it leaves.

"5th. *If the inferior currency be removed, the exchanges will be turned, the outflow will stop,* and *if any vacuum* is *created, gold* will *flow* in to *supply* it. *Gold* will *not* flow in while the *inferior currency* fills the channels of circulation.

"6th. In the presence of a panic the duty of the bank is to freely discount for all solvent parties.

"7th. The amount of gold in the world will suffice to perform the exchanges of the world. If there be more or less, it will only affect the average level of prices the world over.

"8th. Every nation will have that portion of the stock of gold in the world which is proportioned to its trade. Each nation will have just as much as it needs.

9th. A better and a worse currency cannot circulate together. The worse will drive out the better."

Paragraphs 4, 5, 8 and 9 cover clearly the condition of the U. S. today in that we have an excess of inferior depreciated currency, and were threatened with an unlimited quantity of 50 cent dollars under free coinage of silver until the House of Representatives emphatically buried the Free Silver bill on February 14th, 1896, beyond resurrection; I say buried, for while we have gold monometallists and silver monometallists, this representative vote clearly shows that the balance of power is held by a strong party who hold to the use of both gold and silver, but under no circumstances will consent to free coinage except by international agreement.

These maxims indicate that it is the province of Government to look to the *quality* of money in the country and not to the *quantity* as the needs of commerce will settle the *quantity* if there is no question as to *quality.*

In further proof of this Dr. Adam Smith in his "Wealth of Nations" published in 1776, which contains more sound principles on economic subjects than have since been collated by man, says: "The attention of Government

was never so unsuccessfully employed as when directed to watch over the preservation or increase of the quantity of money in any country. No complaint is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither the wherewith to buy it nor the credit to borrow it. Those who have either will seldom be in want either of the money or the wine which they have occasion for, and a country that has wherewithal to buy gold and silver will never be in want of those metals." And further, "When the quantity of gold and silver in any country exceeds the effectual demand, no vigilance of government can prevent their exportation."

In Sumner's "History of American Currency" he quotes the fundamental doctrine that "A country will have as much coin as it wants providing no impolitic act of legislation interferes to force it out of circulation."

Ricardo says, "Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter."

W. Stanley Jevons in his "Money and the Mechanism of Exchange," says, "All the evils of the day, the slackness of trade, falling prices, declining revenue, poverty of the people, want of employment, political discontent, bankruptcy and panic, have been attributed to the want of money, the remedy suggested being in former days the setting of the mint to work and in the later times the issue of paper money. The true answer to such complaints is that no one can tell how much currency a nation requires, and to attempt to regulate its quantity is the last thing which a statesman should do."

Prof. Jevons further says that many well-intentioned disbelievers in the Gresham law have done so "to the great cost of states and the perplexity of statesmen who have not studied the principles of monetary science." It seems to be conclusive from the experiences of 1893 that the United States, disregarding the Gresham law, chose rather to repeat history at great cost to us.

Let us illustrate the Gresham law in this way. We will call gold "cream," silver, "skim milk" and paper money "water." Each nation has a large reservoir filled with these liquids and all the reservoirs are connected by canals, so that all will naturally seek a common level. Now suppose the United States pours a sufficient quantity of water into its reservoir to overflow it, what runs off to the reservoirs of other countries? "Cream," of course. What runs off if we pour into the reservoir "skim milk" in free coinage doses? "Cream," of course. Do the statesmen of the best land on earth desire to leave us on a diet of "skim milk" and "water" and give the other nations the "cream?"

The Gresham law has operated in the United States since 1890, because the natural reservoir of the quantity of money required by us was full. The magnanimous American people in their good will toward the silver producing states (after adding about 475 million dollars of their product to our circulating medium since 1873) consented in 1890 to still add to a constantly depreciating currency a larger monthly volume of silver until it reached the enormous sum of 625 millions of dollars. Silver fell in the meantime from $1.29 per ounce to 63 7-10 cents in 1894.

This resulted in our "cream" floating abroad as naturally as water flows down stream, thus creating distrust, and this distrust bred our panic of 1893.

This vast sum to-day exceeds the stock of any nation on earth, excepting only the great sink holes for silver, China and India, and yet with silver constantly depreciating, our western silver-producing friends think us ungenerous, and are still clamoring for the free opening of our mints to 3900 millions of the world's silver worth only 65 cents per ounce in the market, with the cool assertion that Uncle Sam's stamp on it will at once again raise this huge mass to $1.29 per ounce. They also with colossal coolness deny that our "cream" will flow from us with this prodigious inpour of silver into our reservoir. Such assertions innocently made can only excite our pity, but "love is blind." So we must be charitable in our criticism of our western brethren, as the Government is common plunder, and they cannot see the error in turning their product

worth 65 cents into the Government grist mill and getting $1.29 in return, no matter if the "dear people" do stand the loss. One criticism worthy of note is that some of the Generals in the campaign, argue free silver for the masses and at the same time drew their own mortgages and leases payable in "gold coin." Right here allow me to propound

A CONUNDRUM OR TWO.

If the silver mine owners of the United States alone turned out a crop of 50,000,000 ounces of silver in 1895 and sold it for 65 cents per ounce, how much would they turn out annually if Uncle Sam took all they could mine at $1.29 per ounce? And if the world's silver was turned into Uncle Sam's ample dimensions would he not exclaim with Johnnie when his mother brought him a fresh plate of pancakes—after he had stowed away a Bland-Allison-Sherman law quantity—she found him with an 1893 panicky face on, and when his mother asked him, "What is the matter, Johnnie? Don't you want any more pancakes?" Johnnie held his sides and exclaimed, "No, mamma; nor I don't want what I got."

PUT YOURSELF IN HIS PLACE.

If we were Englishmen and had investments in the United States, and the United States Senate was clearly for free silver, with the House uncertain, would we leave our money in such investments, or withdraw the gold until the matter was absolutely settled rightly? Can the people of the state of Kansas borrow money as cheaply now after passing "stay laws" as they could before? Can the people of the states of the west borrow money from the east at the same rate as they could before the serious agitation for free silver? Does it pay to attempt to take advantage of your creditor? Most emphatically, NO!

If the United States has an excess of demand gold obligations outstanding and there is profit to the people who hold these obligations in demanding the gold, is it not human nature to keep the endless chain running as long as the Government stupidly pays out the demand obligations again? Would any one say a business man had ordinary common sense who would continue that process if his credit

was undoubted and he could borrow on time and pay up those demand obligations?

There is a great hue and cry, even among high class journals, that the interest on our foreign debt, and the expenditures of our citizens abroad annually absorb 200 to 300 millions of dollars. Is this a serious state of affairs? Is the rapid development of this country does not the farmer or merchant go to the city or the east if he can borrow money cheaper than from his neighbor? If corporations or individuals can borrow money cheaper in Europe than at home will they not do it? Does it bankrupt any one to borrow money cheaper abroad than at home? Was Britain not a debtor nation a century ago?

We glory in the fact that the American people can afford to enrich their minds by European travel, and in study of the world's history, since seeing is infinitely more satisfactory than book knowledge alone. According to the United States Census Report for 1890 the average annual increase of our wealth for the past decade was 2,200 millions of dollars, so our little savings for two short years would wipe out completely the most generous estimate of our great foreign debt that gives so many people the shivers. Let the people of the United States settle absolutely the quality question of our money, reduce its depreciated, redundant quantity, increase our revenues to cover the requirements of even a billion-dollar Congress. Let them imbibe a generous quantity of the philosophy of the farmer's wife in her answer to her husband when he ejaculated: "On the coinage question, I stand square on the platform." "It ain't standin' square is what is the matter with you, Silas; it is standin' 'round is what is ailin' you an' half these other fellers that orter be out plowin', instead of savin' the country with their mouths," and the marts of trade will be filled with creamy gold, the bugbear of the balance of trade will melt imperceptibly away, distrust will cease, and European banks, with 600 millions more gold on hand than in 1879, will open their floodgates again. No people on earth are more eager for an income on their money than the British, and yet the Bank of England rate of discount has not changed from 2 per cent for more than two years, and today her coffers hold 60 millions more gold than a year ago, all private deposits awaiting investments where integrity and the standard of payments are unquestioned.

OUR COMMERCIAL SUPREMACY.

The able editor of "L'Economiste Francais" in an excellent article in the Forum of December last, on "American Commercial and Financial Supremacy," treats the subject with convincing power. The grave importance of proper action in this crisis cannot be over-estimated. The indecision of our legislators affects us not only for the present, but our future prospects of securing the pre-eminent position to which we will soon be entitled in the world of trade is seriously imperilled.

A few statistics may serve to emphasize the importance of this question.

Mulhall, in his "Dictionary of Statistics" estimates the population in 1890, wealth and debt, with ratios, also *per capita* wealth in 1888 of the principal nations of the world; (to which is added the *per capita* debt as deduced therefrom) as follows:

	Pop. in Millions	Millions £ Sterling.		Ratio Debt to Wealth	Per capita in £	
		Wealth	Debts		Wealth	Debt
United States	63	12,824	221	1.7	210	3.5
United Kingdom	38	9,400	698	7.7	247	18.4
France	39	8,598	1,269	14.7	224	32.5
Germany	49	6,437	435	6.8	140	9
Russia	92	5,089	756	14.8	55	8.2
Austria	40	3,855	580	15	99	14.5
Italy	30	2,963	460	15.5	100	15.3
Spain	18	2,516	260	10.3	148	14.4

According to the United States Census report of 1890, page 321, if we add to our national debt, all state, county, municipal and school district debts, the whole will aggregate only 417 millions sterling, showing a *per capita* debt only of £6⅔ sterling, a notable comparison.

From the same source we compile the following statistics as to "the yearly value of the chief occupations of mankind," including annual income:

	Millions Pounds Sterling.						
	Agri-culture	Manu-facture.	Min-ing.	Trans-port.	Foreign Com'rce	Total.	Annual Income.
United States	776	1,443	107	231	320	2,877	2,358
United Kingdom	251	820	60	113	740	1,984	1,285
France	460	185	10	96	310	1,361	1,046
Germany	424	583	25	103	370	1,505	1,076
Russia	563	363	15	94	120	1,155	975
Austria	331	253	6	59	95	744	616
Italy	204	121	22	33	95	455	363
Spain	173	85	4	27	60	349	293

Mulhall also quotes the banking power of the world for 1889 as follows: (Partial list.)

	Millions Pounds Sterling.		
	Capital.	Deposits	Total.
United States	270	760	1,030
United Kingdom	284	626	910
France	140	128	268
Germany	85	146	231
Russia	42	64	106
Austria Hungary	45	102	147
Italy	25	83	108
Spain	31	16	47
*United States June 30th, 1895	368	1,009	1,377

*See Report of Comptroller of the Currency for 1895.

Muhleman in his "Monetary Systems of the World" estimates the world's metallic money in 1894 at about 4,700 millions of dollars in gold; full legal tender silver about 3,640 millions of dollars; subsidiary silver about 850 millions of dollars; therefore the United States had nearly one-seventh of the whole, or 1,250 millions in nearly equal quantities of 625 millions each of gold and silver, and practically all added to our circulation since "the crime of 1873." Do we not hold our generous proportion of the world's stock of both metals, and will not our "cream" flow abroad if we add to our reservoir a cheaper money than gold?

America is in her childhood compared with the old world countries here enumerated. She outstrips them all in wealth. Her per capita debt is a very marked contrast to that of the great nations of Europe. She produces,

according to Mulhall, 30 per cent. of the grain and 33 per cent. of the meat of the civilized world, and her people are the best fed, housed and clothed.

Under the head of "chief occupations of mankind" the great superiority of her various industries is shown in every item, except her foreign commerce.

Her banking power exceeds even that of the United Kingdom, while every other country pales into insignificance compared with her.

Mulhall declares that 9,000,000 farm laborers in the United States produce as much grain as 33,000,000 in Europe. If this marvelous energy of the American people be supported by wise legislation by continuing that standard of value which is recognized by the highest civilized nations of the earth, the future development of this country will be beyond our comprehension. As against the superficial cry for free silver will any one deny that Germany has had a remarkable prosperity since she resolved in 1871 to adopt the gold standard?

At the time of the adoption of the gold standard by Britain in 1816 her total wealth was but 2,400 millions pounds sterling, with the enormous debt of 37½ per cent. of that sum. Today she has assets of 10,000 millions of pounds with only 6½ per cent. debt.

The United States, a country immeasurably more productive, will start the next century far ahead of where Britain ends the present one. She may soon become the creditor nation of the world. The tide is already setting in that direction. Our great insurance companies, The New York Life and others, report millions invested in foreign securities.

A vast responsibility rests upon our statesmen if we would forge ahead in our rapid onward career, and no one thing will help to guide us so much as the absolute integrity of our money. Confidence is the bulwark of all progress, and distrust breeds commercial distress. May the aim of our legislators be *prosperity before politics*. If we fail in attaining the commercial supremacy of the world in every particular, thus transferring the commercial center from London to New York City, or even Chicago—the old world

metropolitan cities being internal—the grave responsibility will rest largely with our statesmen.

ANDREW J. FRAME.

WAUKESHA, Wisconsin, June, 1896.

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